

OFFICE OF THE AUDITOR GENERAL

226.1

STATE BOARD OF CONTROL
STATE-OWNED RESIDENCES
OCCUPIED BY STATE EMPLOYEES

DECEMBER 1974

Joint Legislative Audit Committee

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December 4, 1974

The Honorable Speaker of the Assembly
The Honorable President of the Senate
The Honorable Members of the Senate and the
Assembly of the Legislature of California

Members:

Transmitted herewith is the Auditor General's report on the State Board of Control's regulations, and the administration of those regulations, pertaining to state-owned residences provided to state employees.

The Board of Control's basis for establishing rental rates charged to state employees occupying the 1,170 state-owned residences under the board's responsibility excludes consideration of the fair market value of such residences. As a result, state employees have been undercharged, and based on estimated data compiled by the Department of General Services, at least \$1,200,000 of rental income is lost annually by the state.

In lieu of fair market value, the Board of Control's prescribed rental rates for state-owned residences provided to state employees are based on the number of rooms, age, housekeeping facilities, and location of the residences, and whether the utilities are paid for by the state or by the state employee who occupies the residence. The board's rental rates range from \$14 to \$174 monthly.

The board's basis for establishing rental rates results in numerous inequities. For example, a State Youth Authority employee pays \$55 per month less in rent than a Corrections Department employee, despite the fact that the Youth Authority employee lives in a residence valued at \$12,576 more than the residence occupied by the Corrections Department employee.

The Honorable Members of the Legislature
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A basis used to establish rentals for privately-owned housing is one percent per month of the fair market value of such housing. While fair market values have not been independently determined for all 1,170 state-owned residences under the board's responsibility, the Department of General Services has compiled estimated market values totaling \$19,068,000 for those residences. If rentals were based on one percent per month of these estimated market values, the rental revenues paid to the state would be \$2,288,160 annually. Therefore, on this basis, state employees are undercharged \$1,241,304 annually.

The Auditor General has recommended that the State Board of Control establish rental rates, charged to state employees who occupy state-owned residences, of at least one percent per month of independently determined fair market values of these residences. Until such independent determinations have been made, estimated market values, already compiled by the Department of General Services, should be used.

Independent appraisals to establish fair market values of all of the 1,170 state-owned residences have never been made.

While in November 1974 the Department of General Services, at the request of the Board of Control, provided the board with various data on the residences, including estimated market values, this information cannot be considered to represent independent appraisals of fair market value. This data was largely provided by the state employees who occupy the residences or by state employees who are not trained appraisers.

It is recommended that the State Board of Control request the Department of General Services to initiate a periodic independent appraisal program in order to determine the fair market values of state-owned residences.

Respectfully submitted,



VINCENT THOMAS, Chairman
Joint Legislative Audit Committee

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INTRODUCTION

In response to a legislative request, we have reviewed the State Board of Control's regulations and the administration of those regulations pertaining to state-owned residences provided to state employees. The board has the responsibility of determining the fair and reasonable value of these residences and related services furnished by the state to its employees (Gov. C., Sec. 13924).

The State Board of Control consists of the Director of the Department of General Services and the Controller, both acting *ex officio*, and a third member who is appointed by and serves at the pleasure of the Governor. The Director of the Department of General Services is chairman of the board. The Department of General Services provides administrative services for the Board of Control.

There are 1,170 state-owned residences under the responsibility of the Board of Control. Total estimated rental income paid by state employees to the state for occupying these residences is \$1,046,856 annually.

The scope of this report does not include state-owned residences provided to administrators of the University of California, which are not subject to the Board of Control's regulations, nor does it include residences acquired for eventual disposal by agencies such as the Division of Highways, which is exempted by the Board of Control's regulations.

FINDINGS

THE BOARD OF CONTROL'S BASIS FOR ESTABLISHING RENTAL RATES CHARGED TO STATE EMPLOYEES OCCUPYING THE 1,170 STATE-OWNED RESIDENCES EXCLUDES CONSIDERATION OF THE FAIR MARKET VALUE OF SUCH RESIDENCES. AS A RESULT, STATE EMPLOYEES HAVE BEEN UNDERCHARGED, AND BASED ON ESTIMATED DATA COMPILED BY THE DEPARTMENT OF GENERAL SERVICES, AT LEAST \$1,200,000 OF RENTAL INCOME IS LOST ANNUALLY BY THE STATE.

The Board of Control's prescribed rental rates for state-owned residences provided to state employees are based on the number of rooms, age, housekeeping facilities, and location of the residences, and whether the utilities are paid for by the state or by the state employee who occupies the residence. The fair market value of these residences is not considered in establishing the rental rates.

Under this method of establishing rental rates, the board's rental rate schedule, effective July 1974, ranges from a minimum of \$14 monthly to a maximum of \$174 monthly.

The board's basis for establishing rental rates results in numerous inequities. For example, the rent charged to a State Department of Corrections employee, occupying a state-owned residence with an estimated market value of \$31,424, is \$125 monthly. A State Department of the Youth Authority employee, occupying a state-owned residence with an estimated market value of \$44,000, pays rent of only \$70 monthly. Therefore, the Youth Authority employee pays

\$55 per month less than the Corrections Department employee, despite the fact that the Youth Authority employee lives in a residence valued at \$12,576 more than the residence occupied by the Corrections Department employee.

A basis used by owners of privately-owned housing to establish rentals charged to occupants is one percent per month of the fair market value of such housing. For state-owned residences, at least a one percent per month charge to employees would be reasonable since the state maintains such residences at no cost to the employees and in some instances pays utilities.

While fair market values have not been independently determined for all of the 1,170 state-owned residences under the board's responsibility, the estimated market value for these residences, as compiled by the Department of General Services, is \$19,068,000.

As of November 1974, the estimated rental income from these 1,170 residences, resulting from the board's basis of charging by number of rooms, age, housekeeping facilities, location, and utilities, is \$1,046,856 annually.

If one percent per month of the estimated market value of these residences were used as the basis for charging rent to the state employees who occupy these residences, the rental revenues paid to the state would be \$2,288,160 annually. Therefore, using the estimated data compiled by the Department of General Services, state employees are undercharged \$1,241,304 annually, which represents annual rental revenues lost by the state.

In our judgment, the use of the number of rooms, age, housekeeping facilities, location, and utilities as the basis for charging rental rates to state employees, in lieu of the use of one percent per month of fair market values of the state-owned residences as the basis for such rental rates, has resulted in significant undercharges to state employees. Further, in our judgment, the fair market value basis would be a more equitable basis and additionally would increase rental income paid to the state.

RECOMMENDATION

We recommend that the State Board of Control establish rental rates, charged to state employees who occupy state-owned residences, of at least one percent per month of independently determined fair market values of these residences. Until such independent determinations have been made, estimated market values, already compiled by the Department of General Services, should be used.

SAVINGS AND BENEFITS

Based on estimated data compiled by the Department of General Services, implementation of this recommendation will result in additional rental income to the state of at least \$1,200,000 annually and will result in a more equitable basis of charging rent to state employees.

INDEPENDENT APPRAISALS TO ESTABLISH FAIR MARKET VALUES
OF ALL OF THE 1,170 STATE-OWNED RESIDENCES UNDER THE
RESPONSIBILITY OF THE BOARD OF CONTROL HAVE NEVER
BEEN MADE.

Independent appraisals of the 1,170 state-owned residences occupied by state employees have never been made. Such appraisals would establish the fair market value of these residences under the Board of Control's responsibility.

In May 1974, the board requested the Department of General Services to conduct a questionnaire survey of all state-owned residences subject to Board of Control regulations.

The questionnaire circularized by the Department of General Services contained 25 questions including one for an opinion on the market value of the residence and the basis for that opinion. The results of that survey were delivered to the board on November 6, 1974. The results included estimated rentals of \$1,046,856 annually and total estimated market value of \$19,068,000 for the 1,170 residences.

However, the information obtained cannot be considered to represent an independent appraisal of fair market value since it was largely provided by the state employees who occupy the residences or by state employees who are not trained appraisers.

As previously noted, we conclude that the use of independent fair market values in establishing rental rates charged to state employees would be more equitable and should result in significantly increased revenues to the state.

RECOMMENDATION

We recommend that the State Board of Control request the Department of General Services to initiate a periodic independent appraisal program in order to determine the fair market values of state-owned residences.

SAVINGS AND BENEFITS

Implementation of this recommendation will provide the Board of Control with an equitable basis for establishing rent charged to state employees who occupy state-owned residences. While state costs to effect this appraisal program will be incurred, significant net additional rental income should result.

SUMMARY OF COMMENTS OF THE
DIRECTOR OF THE DEPARTMENT OF GENERAL SERVICES
AND THE SECRETARY OF THE STATE BOARD OF CONTROL

1. The Department of General Services has proposed new regulations to establish one percent of market value of state-owned residences as the basic rental rate to be charged to state employees occupying such residences.
2. The Department of General Services plans to make appraisals of the state-owned residences and report such appraisal data to the Board of Control. Current plans are for the Department of General Services to make appraisals of approximately ten percent of the state-owned residences annually, plus those for which rental rates have been appealed.
3. A further inequity in the present procedure is to other state employees performing the same work but who do not live in state-owned residences and do not receive a rent subsidy. This violates the doctrine of equal pay for equal work. Any value the state may receive from having employees reside in a particular place should be considered in setting salaries, not in setting rental rates for state-owned residences.



Harvey M. Rose
Auditor General

Date: December 2, 1974

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